Exhibit No.:	
Issue:	Treatment of Capacity Costs
Witness:	Michael T. Cline
Type of Exhibit:	Supplemental Direct Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GT-2003-0032
Date:	March 17, 2003

LACLEDE GAS COMPANY

GT-2003-0032

SUPPLEMENTAL DIRECT TESTIMONY

OF

MICHAEL T. CLINE

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of Laclede Gas Company	))	Case No. GT-2003-0032 Tariff No. JG-2003-0048

AFFIDAVIT

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Michael T. Cline, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director - Tariff and Rate Administration of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my supplemental direct testimony, including Schedule 1.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Michael T. Cline
Michael T. Cline

Subscribed and sworn to before me this 4th day of March, 2003.

Joyce L. Jansen

JOYCE L. JANSEN
Notary Public — Notary Seal
STATE OF MISSOURI
ST. CHARLES COUNTY
My Commission Expires: July 2, 2005

SUPPLEMENTAL DIRECT TESTIMONY OF MICHAEL T. CLINE

Q. What is your name and business address?

A. My name is Michael T. Cline, and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. Are you the same Michael T. Cline who has previously filed direct and rebuttal testimony in this proceeding?

A. Yes, I am.

Q. And was your testimony admitted into evidence?

A. Yes it was, pursuant to Ordered paragraph 4 of the Commission's Order Approving Stipulation and Agreement in this case, dated October 17, 2002.

Q. What is the purpose of your supplemental direct testimony?

A. The purpose of my supplemental direct testimony is to explain the Company's position regarding the amount of pipeline capacity that Eligible School Entities ("ESEs") should be required to purchase from the Company after May 31, 2003. Specifically, the Company has determined that the amount of such capacity for the winter months of November through March should remain at 150% of the average daily consumption of each participating ESE in the peak usage month of such ESE during the 24 months ending September 30, 2002. The Company is willing, however, to reduce this required capacity purchase to 88% of the foregoing consumption level during the months of April through October.

Q. Wasn't this matter resolved by virtue of the Stipulation and Agreement filed on October 11, 2002, and approved by the Commission in the October 17 Order referenced above?

A. Only temporarily. Section E of the tariff approved by the Commission covers Transportation Capacity. It provides that the Company will release to the participating eligible school entities ("ESEs"), and the ESEs will purchase, a certain amount of pipeline capacity, but only through May 31, 2003. The parties have not yet agreed on how much pipeline capacity the schools should be obligated to purchase after May 31, 2003. Section E of the tariff provided the parties an opportunity to reach an agreement on this matter. Specifically, the Company, the schools' association ("Association"), Staff and Public Counsel were to meet within 60 days of the tariff's effective date to determine if they could reach a mutually acceptable recommendation for revising the treatment of capacity costs or other program provisions subsequent to May 31, 2003.

Q. Did such a meeting take place?

A. Yes, representatives of all of the above parties met via conference call on December 11, 2002.

Q. What issues were discussed on this call?

A. The capacity issue was the only issue discussed at this meeting, and since this meeting. The parties have discussed no other program provisions.

Q. Did the parties arrive at a mutually acceptable recommendation for the treatment of capacity costs?

A. No. Since no agreement was reached, in accordance with Section E of the tariff, the parties must now file their individual recommendations regarding the capacity issue, together with testimony explaining why its revisions are appropriate and consistent with the requirements of Section 393.310 of the Revised Statutes of

Missouri (the "Statute"), which authorized the school district aggregation program.

Q. Does this supplemental direct testimony represent the testimony referred to in Section E of the tariff?

A. Yes it does.

Q. What is Laclede's recommendation regarding the capacity issue?

A. As I previously indicated, Laclede believes that after May 31, 2003, the ESEs should be required to purchase from the Company during the winter months of November through March pipeline capacity in the amount of 150% of the average daily consumption of each participating ESE in the peak usage month of such ESE during the 24 months ending September 30, 2002. This required capacity purchase would then be reduced to 88% of the foregoing consumption level during the non-winter months of April through October.

Q. Why should the ESEs be required to purchase any pipeline capacity at all from the Company?

A. Prior to the approval of the Statute, the Company entered into long-term contracts for pipeline capacity under the assumption that it was obligated to meet the high priority, temperature-sensitive needs of all of its firm sales customers, including schools. If the schools are not required to purchase and pay for their proportionate share of this capacity, then other customers will have to pay a proportionally greater share of these capacity costs since they cannot be shed by Laclede. In that event, the Purchased Gas Adjustment rates that Laclede would charge its other customers would have to increase. Such a result is flatly inconsistent with the requirements of Section 5 of the Statute which requires that any school aggregation program "will not have any negative financial impact on the gas corporation, its other customers or local taxing authorities..." Thus, in order to adhere to the explicit provisions of the Statute that prohibit any negative financial impact on the Company or other customers, the ESEs must be required to either take assignment of the pipeline capacity or bear the cost the Company incurs to continue holding such capacity.

Q. What is the basis for continuation of the 150% of average daily consumption requirement in the winter months after May 31, 2003?

A. Such requirement in the existing tariff was proposed by representatives of the schools in settlement discussions leading up to the development of the existing tariff and apparently such factor was used for school aggregation programs for other LDCs in this state and in other parts of the country.

Q. Why has the Company determined that the 88% factor is appropriate for the non-winter months after May 31, 2003?

A. The 88% factor for the non-winter months assumes that the ESEs should be responsible for an annual average level of pipeline capacity costs equal to 114% of the average daily consumption of each participating ESE in the peak usage month of such ESE during the 24 months ending September 30, 2002. If it is assumed that the ESEs need 150% of such average consumption during the five winter months of November through March, then the Company only needs to release 88% of such capacity to the ESEs during the seven summer months in order to average 114% for all twelve months. In other words, instead of requiring the ESEs to purchase the same level of capacity each and every month in order for them to meet their peak needs (as most customers generally have to do under standard FERC-approved transportation tariffs) such an approach gives the ESEs the flexibility to shed some of that capacity during the summer months while simultaneously compensating the Company for the costs associated with the year round capacity the Company has contracted for to meet the ESEs' needs.

Q. How did you arrive at 114% as an average annual factor?

A. The Company's peak sales month during the 24 months ending September 30, 2002 occurred in January 2001 in which the Company sold 196,160,000 therms to firm sales and firm transportation customers. In that same month the Company also transported 7,785,000 therms for its firm transportation customers for which it has a back-up sales obligation. Thus, in January 2001 the Company's total throughput for which it had a firm sales obligation was 203,945,000 therms, or 20,394,500 MMBtu. Since the average number of days in the billing month of January 2001 was 32.05, the average daily throughput for which the Company had a firm sales obligation was 636,000 MMBtu. Presently, the total amount of pipeline capacity under contract by the Company that is available for deliveries into its distribution system is 726,000 MMBtu. The Company derived the 114% factor by dividing 726,000 MMBtu of daily pipeline capacity by the estimated 636,000 MMBtu of average daily throughput for which the Company had a firm sales obligation in January 2001.

Q. Couldn't Laclede reduce the ESEs' capacity purchase requirements even more by adjusting its pipeline contracts to account for the reduced capacity needs of the Company as a result of ESEs deciding to purchase their own gas?

A. No, the Company could not do this. I have reviewed the Company's contracts with Mississippi River Transmission Corporation ("MRT"), Williams and Missouri Pipeline Company and none of these contracts permit the Company to reduce its contract demands due to circumstances like a school aggregation program.

Q. Does the Company require other firm sales customers who switch to transportation service to take assignment of pipeline capacity?

A. No, it does not. However, the potential stranded pipeline capacity for these customers is smaller than that of the schools since those customers who are large enough to qualify for transportation service have either already converted to transportation service or have had the opportunity to convert for some time.

Q. When these customers converted to transportation service, did the Company require them to take assignment of the pipeline capacity implicitly lined-up to serve their requirements?

A. No, the Company did not require that these customers purchase such capacity from the Company because the measures that had been developed to protect the Company and its remaining customers at that time made such actions unnecessary.

Q. Please explain.

A. The vast majority of the Company's transportation customers switched to transportation service around 1990 when the Company first began offering transportation service. Such a capacity assignment was not necessary since the service agreement between the Company and MRT at that time expressly permitted the Company to reduce its contract demand with MRT to the extent that the Company no longer was required to meet such firm sales service obligation as a result of Laclede's customers converting to transportation service.

Q. Why can't some of the ESEs' capacity reductions be offset by increased pipeline capacity required to meet customer growth?

A. Such an offset may be possible if there truly was significant customer growth in the Company's service area. Unfortunately, most of the new construction that is occurring in the St. Louis area is attributable not so much to added load as it is to shifted load as households and businesses in areas traditionally served by the Company relocate to newly developed areas, primarily in the western end of the Company's system. Thus, the Company's negligible overall load growth, if there is any at all, is unable to absorb the amount of capacity that would be stranded if the ESEs are not required to purchase capacity at the requirement levels specified in my testimony.

Q. Are you proposing any other changes to the Company's Experimental School District Aggregation Service?

A. Because the Company's program is experimental in nature, and this testimony is limited, by agreement of the parties, to the issue of how capacity costs should be treated, the Company does not believe such changes should be made at this time.

To the extent aggregation service were to be provided on a permanent basis, however, issues such as whether it is appropriate for schools to have the option to participate in the program or purchase traditional sales service each year without some additional charge would have to be evaluated. As utilities incorporate more and more hedging to reduce the volatility of their gas commodity costs, it becomes increasingly problematic to allow customers the flexibility to choose at no additional cost sales service when the utility's hedging activities have made the price for that service more attractive than what is currently available in the market and then choose aggregation service when the reverse is true. Clearly, such issues should be fully addressed if and when the time comes to determine whether such a service should be provided on a permanent basis.

Q. Please summarize your testimony.

A. In order to comply with Section 5 of the Statute that provides that neither the Company's other customers or shareholders should be negatively impacted by school aggregation service, ESEs should be required to purchase capacity from the Company during the November through March winter months and during the April through October summer months equal to 150% and 88% respectively, of the average daily consumption of participating ESEs in the peak usage month for each such ESE that occurred during the 24 months ending September 30, 2002. Sample tariff sheets incorporating this concept are attached hereto as Schedule 1.

Q. Does this complete your testimony?

A. Yes, it does.

P.S.C. MO. No. 5 Consolidated, First Revised Sheet No. 42
CANCELLING P.S.C. MO. No. 5 Consolidated, Original Sheet No. 42

Laclede Gas Company — Name of Issuing Corporation or Municipality
For Refer to Sheet No. 1 — Community, Town or City

SCHEDULE OF RATES

C. Supply Planning Obligations (Continued):

Delivery Schedule which will be used by the Association to determine the daily amount of natural gas the Association must arrange for delivery into the Company's distribution system to meet the gas supply requirements of the participating schools during the subsequent January 1 through October 31 period. For the First Aggregation Year only, the Company shall provide the Association with a Delivery Schedule within twenty business days of receipt of the list of participating customers, after which aggregation service may commence as early as the first day of the month following the provision of such Delivery Schedule.

2. Once per week during the October 15 through April 30 period, the Company shall provide the Association with the forecasted daily temperature for the one week period beginning the next day. Such forecast is to be used by the Association with the Delivery Schedule to determine the daily delivery requirements for such week. If for any business day during the October 15 through April 30 period the Company or the pipeline issues a critical day flow order or period of curtailment, or the Company determines a system operational need, then by 9:00 a.m. of such day the Company shall provide the Association with the applicable following day's (days') forecasted daily temperature that is to be used by the Association with the Delivery Schedule to determine the applicable following day's (days') delivery requirements. The information under this paragraph shall normally be provided by email.

D. Imbalances:

Any difference between the total volumes sold to all of the participating ESEs and the volumes of gas purchased by the Company from the participating ESEs or their agent, after adjusting for the differences that arise from the Company's revenue cycle billing of customers and the calendar month purchases of gas supplies, shall be accumulated in an imbalance account. Any over-delivery or under-delivery of gas in such imbalance account shall be used to ratably increase or reduce the amount of gas the Association must arrange for daily delivery into the Company's distribution system in the subsequent month.

E. Transportation Capacity:

The Company will release to the participating ESEs or their agent firm transportation capacity on Mississippi River Transmission Corporation ("MRT") at the Company's cost of such capacity in accordance with the capacity release procedures contained in MRT's Federal Energy Regulatory Commission approved tariff. Such capacity shall be released to and taken by the party designated by the Association at MRT's maximum FERC-approved rate on a recallable basis, but will not be recalled by the Company unless requested by the Association and agreed to by the Company, or unless the Association fails to deliver gas supplies in accordance with the Delivery Schedule, adjusted for

DATE OF ISSUE ______ (Month Day Year)
DATE EFFECTIVE June 1, 2003 (Month Day Year)

ISSUED BY R.L. Sherwin, Assistant Vice President, 720 Olive St., St. Louis, MO 63101
(Name of Officer, Title, Address)

P.S.C. MO. No. 5 Consolidated, First Revised Sheet No. 43
CANCELLING Original Sheet No. 43

Laclede Gas Company — For — Refer to Sheet No. 1
Name of Issuing Corporation or Municipality — Community, Town or City

SCHEDULE OF RATES

E. Transportation Capacity (Continued):

any imbalance, as set forth in Section H. The amount of capacity released after May 31, 2003 shall equal during the November through March winter months and during the April through October summer months 150% and 88% respectively, of the average daily consumption of participating ESEs in the peak usage month for each such ESE that occurred during the 24 months ending September 30, 2002.

F. Payments By The Customer And The Company:

Each month the Company shall bill each eligible entity for gas metered at each entity's premise at the rates in effect for the sales service rate schedule under which the customer would otherwise receive gas if it were not participating in the program. After the end of each calendar month the participating ESEs or their agent shall invoice the Company for the natural gas purchased and received by the Company from the ESEs or their agent in such calendar month. Such invoice shall be based on the schools' cost of gas including transportation charges and for any other applicable charges necessary to effect delivery of such gas to the Company's city gate. The Company shall remit the amount due to the schools in immediately available funds on or before 10 business days after receipt of the invoice by the Company. At the end of each billing month the Company shall also credit or charge the Association an amount equal to the difference between the total Purchased Gas Adjustment recovery from all of the ESEs (except for the first year of the program during which only Current Purchased Gas Adjustment recovery shall be used) and the sum of the gas cost paid by the Company to the Association for gas delivered to the entities. The gas costs paid shall include the effect of any imbalance volumes and corresponding costs from the previous month, along with a credit for a pro-rata share of the system-wide discount the Company receives from MRT. In addition, the amount credited or charged to the Association shall be adjusted to reflect the Company's retention of a $.004 per therm aggregation and balancing fee on every therm sold plus any additional charges and Incremental Costs as described in Sections H and J below. The Company's periodic remittance of gross receipts taxes to each municipality for the most recent applicable billing period shall be based on billings made to each customer under the applicable sales service rate schedule as adjusted, as soon thereafter in the Company's next such remittance, for the other credits or charges made pursuant to this paragraph.

DATE OF ISSUE ______ Month Day Year — DATE EFFECTIVE June 1, 2003 Month Day Year

ISSUED BY R.L. Sherwin, Assistant Vice President, 720 Olive St., St. Louis, MO 63101
Name of Officer — Title — Address